HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Winnipeg CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2013

NEW HOME MARKET

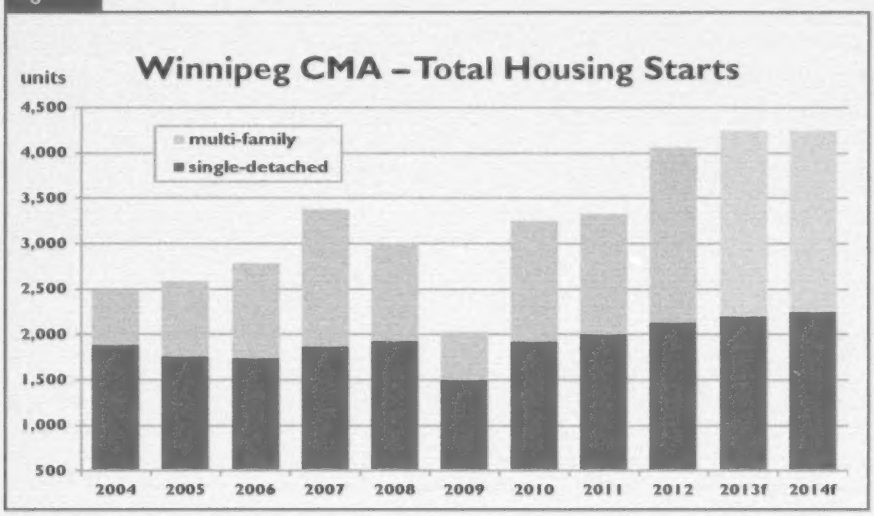
Winnipeg housing starts keeping steady pace

Total housing starts in the Winnipeg Census Metropolitan Area (CMA) finished 2012 with a 22 per cent increase over 2011, surpassing 4,000 units for the first time since 1988.

Single-detached starts totalled 2,129 units in 2012, an increase of six per cent over the previous year. There was a greater increase in construction in the multi-family sector, where the number of starts totalled 1,936 units, 46 per cent more than in 2011 and a 25-year high.

The housing market in Winnipeg was buoyed by a job sector that saw 8,600 more people employed in 2012, an increase of more than two per cent.

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 26, 2013.

[2]Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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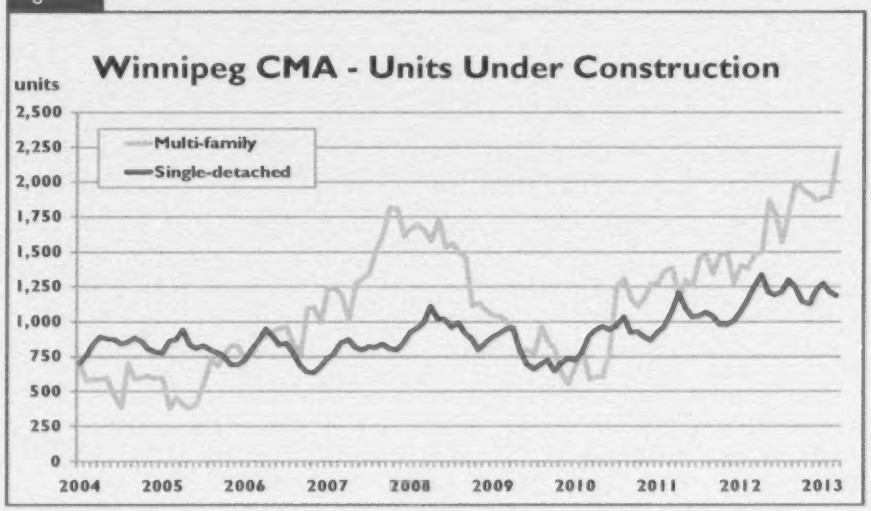
The increase was in both full-time and part-time employment. Moreover, the majority of new jobs were among those aged 45 to 64, which helped fuel demand in the move-up market. In the first quarter of 2013, Winnipeg continued to post year-over-year job gains with 4.000 more people employed. All of the growth has been in full-time positions, a factor that will help maintain housing demand moving forward.

Demand for new homes is also being driven by population growth where, due in large part to international immigration, Winnipeg saw net migration of 10,176 persons in 2012. This contributed to an overall population increase of 1.6 per cent. Going forward, net migration is expected to slow this year with fewer international migrants and greater losses of population to other provinces. Nonetheless, the population will continue to increase and employment will remain stable. These factors, combined with low mortgage rates, will spur builders to maintain production levels at 4,250 homes this year and next.

Single-detached starts continue to increase slowly

Winnipeg homebuilders started construction on 2,129 single-detached dwellings in 2012, an increase of 6.3 per cent over 2011. After a slow start in the first two months of 2013, the number of foundations poured in March helped push the first quarter total to 408 single-detached starts, surpassing last year's corresponding total by 3.6 per cent. Over the balance of the year, demand for new homes will be sustained particularly in the move-up market as existing homeowners seek to take advantage of the increased value of their homes and be further encouraged by low mortgage rates. In addition, continued limited selection in the resale market will make purchasing a new home an attractive option. Collectively, these factors are expected to maintain the pace of construction with builders starting 2,200 new single-family homes by year end, an increase of 3.3 per cent over 2012. This will be followed by a further modest increase of 2.3 per cent in 2014.

Figure 2



Source: CMHC

With the elevated level of starts, the number of complete and unoccupied homes has been rising. At 253 units at the end of March 2013, the number of units in inventory was more than double where it stood at the end of the first quarter of 2012 and was well above the five year average of 205 units. However, this represented a month and half of supply at the current 12-month moving average rate of absorption. Given ongoing demand from population and employment gains, inventories are not expected to rise substantially in the coming months, nor inhibit housing starts.

Moderate growth in average new house price

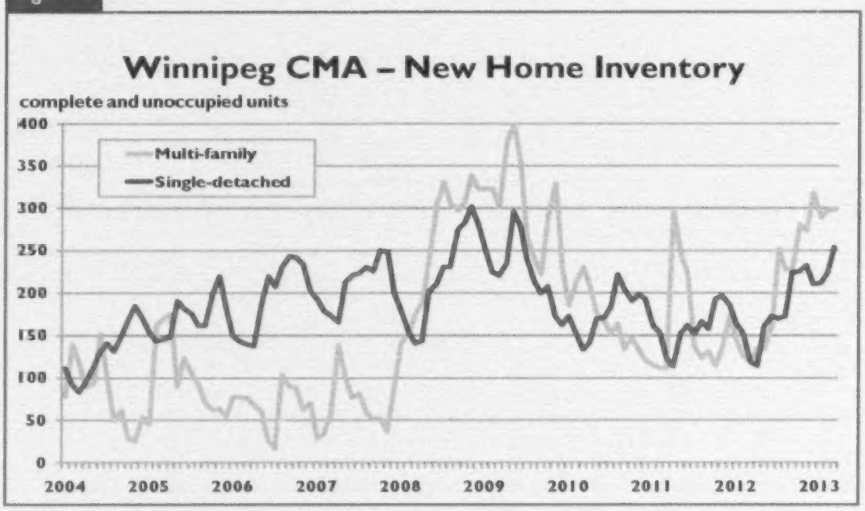
Statistics Canada's New House Price Index (NHPI) for Winnipeg, which measures the change in the contractor's selling price of new homes where the specifications remain the same between two consecutive periods, increased 4.2 per cent in 2012. This was nearly double the Canadian average of 2.3 per cent over the same period. The increase was slightly stronger within the land component in 2012, a phenomenon that has continued this year. In the first two months of 2013, the land component has increased 9.6 per cent year-over-year compared to an increase of four per cent for the house only. The land component of the index can be influenced by the price at which a group of newly serviced lots are put on the market. It is expected that the growth in land component of the NHPI will be less pronounced moving forward. The total average NHPI is expected to increase by four per cent in 2013, with a similar increase of 3.8 per cent in 2014.

In contrast to last year's 4.2 per cent increase in NHPI, the average absorbed price of a new single-detached house in the Winnipeg CMA advanced only 1.9 per cent in 2012, reaching $402,463. The slower price growth was compositional due to fewer buyers at the upper end of the market. The number of homes absorbed priced over $700,000 saw a 22 per cent decrease, resulting in a drop in market share from 4.4 per cent in 2011 to 3.4 per cent in 2012. The first quarter of 2013 is showing a continued trend towards the mid-range of the market with average price registering a decline of 3.8 per cent from corresponding levels in 2012. This compositional effect will result in the average price increasing at a rate less than the NHPI over the forecast period. Expect the average absorbed single-detached price to increase 1.9 per cent in 2013 and 2.4 per cent in 2014, reaching $410,000 and $420,000, respectively.

Multi-family starts to remain elevated

Multi-family starts, which consist of semi-detached units, rows, and apartments, reached a 25-year high of 1,936 units in 2012. Developers of multi-family projects will continue to respond to demand coming from population growth in key demographic sectors. Winnipeg is currently experiencing a high level of growth among younger households as the children of the baby boom generation enter the housing market and the majority of immigrants to the city come from younger, more mobile age groups. These younger households have a higher propensity to rent or purchase a condominium. At the same time, there are a growing number of older households looking to downsize who are also choosing apartment

Figure 3



Source: CMHC

living in both the rental and ownership markets. This number will continue to remain elevated as the baby boom generation continues to move through the housing life cycle. Supported by these factors, demand will remain strong in the multi-family market moving forward.

With elevated multi-family construction levels over the last two years, the inventory of complete and unoccupied units has increased to 298 units at the end of the first quarter, double where it stood one year prior. This surpasses the five-year average of 220 units and represents 3.2 months of supply at the 12-month moving average rate of absorption. There is some risk in seeing inventories rise further as more projects reach completion. Within the current inventory, approximately half are destined for the rental market where, although there is a low vacancy rate overall, vacancies in the higher rent ranges are trending higher. The remaining units in inventory are destined for ownership where under construction levels are also elevated. Although many condominium projects start only after reaching a pre-sold threshold, there will still be a proportion of these units added to the inventory when completed.

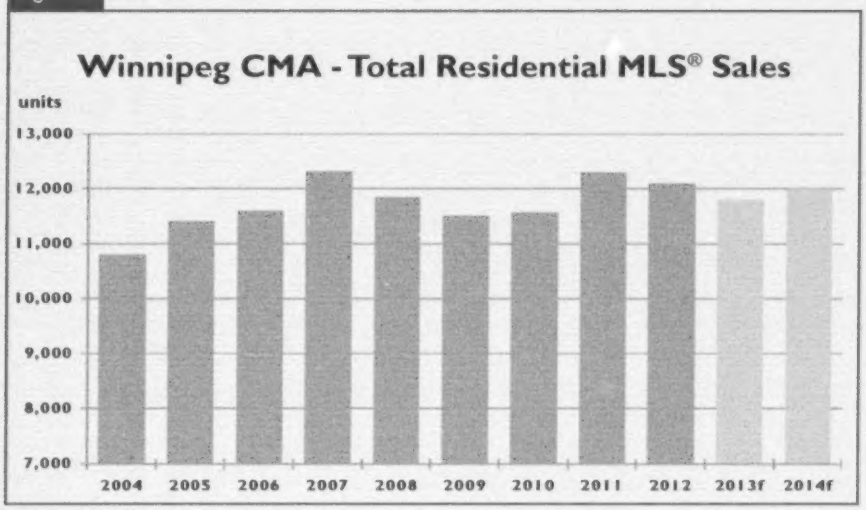
Elevated inventories pose a risk to the outlook for multi-family starts moving forward. However, the number of units in inventory are currently only slightly above the five-year average and Winnipeg's demographic profile points to continued demand for multi-family housing. As a result, developers will continue to move ahead on projects currently in the planning stages and Winnipeg will see an elevated level of multi-family construction over the forecast period with annual starts of 2,050 units in 2013 and 2,000 in 2014.

RESALE MARKET

Resale transactions to ease

Despite a rebound in job growth, population gains, and low mortgage rates, sales of existing homes in Winnipeg registered a decline of 1.7 percent in 2012. Most of the decline occurred in the latter half of the year,

Figure 4



Source: CREA, CMHC Forecast (f)

and the downward trend continued in the first quarter of 2013. Sales in the first three months of the year totalled 1,979 units, 13 per cent less than the number of sales during the same period of 2012, and the lowest first quarter total since 1999. Contributing to the decline in the first quarter were unfavourable weather conditions that kept some potential buyers away. Nonetheless, many of the factors that slowed home-buying activity in the latter half of 2012 also persisted into this year, including increasing prices and monthly amortization costs.

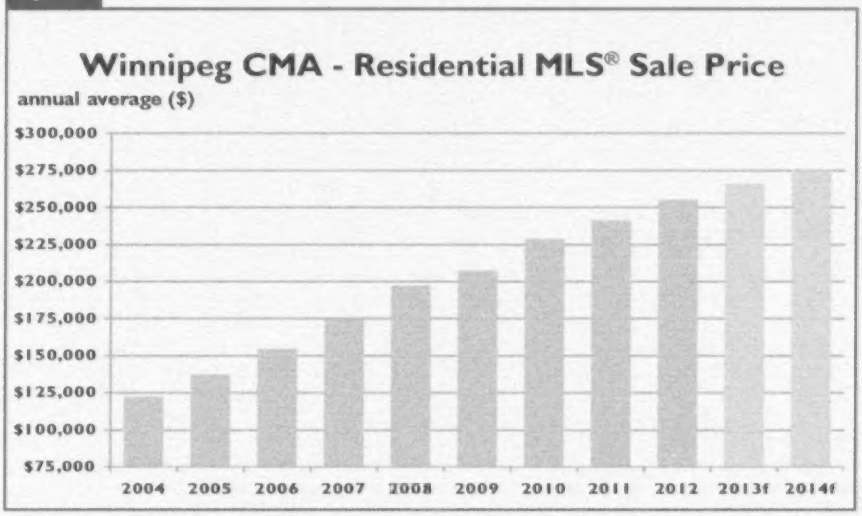
Moving forward, several factors will positively impact demand and help support sales over the balance of the year. While more modest, recent employment gains have been concentrated in full-time jobs and gains are forecast to continue over the forecast period. Winnipeg has welcomed many new immigrants in recent years who will continue to make the move to home-ownership. Slower sales over the last several months have also resulted in a higher number of active listings, providing additional selection for potential buyers. Finally, low mortgage rates will continue to stimulate demand. Countering these positives, net migration is slowing and modest increases in average weekly earnings will weaken purchasing power in the face of price gains. On balance, sales will pick-up for the remainder of 2013 but will be unable to make up for the reduction reported in the first three months of the year. Overall, expect sales to total 11,800 units in 2013, a decline of 2.4 per cent compared to 2012. Sales will continue to improve in 2014 and post a modest increase of 1.7 per cent.

Price gains to moderate

A shift in the demand/supply balance will slow the pace of resale price growth over the next two years. In the first quarter of 2013, sales declined at a faster rate than new listings. In addition, Winnipeg Realtors® have indicated properties were taking longer to sell compared to the same period last year. As a result, average active listings during the first quarter increased 13 per cent compared to the first quarter of 2012. This brought the sales-to-active listings ratio to 61 per cent, down 18 percentage points from the first quarter of last year and to its lowest level since 2009.

Despite a more balanced relationship between sales and listings, the average resale price in the first quarter of 2013 rose 7.4 per cent year-over-year

Figure 5



Source: CREA, CMHC Forecast (f)

to $264,546. Some of this increase was compositional as the Winnipeg Realtors® reported a slight increase in market share of homes priced over $400,000. As the year progresses, the additional supply in conjunction with modest increases in demand, should translate into a continued move away from those favouring the seller to more balanced conditions. Under these conditions, the average price for 2013 should see an increase of 4.3 per cent to $266,000, followed by a 3.1 per cent gain in 2014 to $274,300.

RENTAL MARKET

Vacancy rates to increase modestly

Heightened demand in Winnipeg's rental market has kept the apartment vacancy rate below two per cent since 2001. CMHC's Rental Market Survey revealed a vacancy rate of 1.7 per cent in October 2012, marking an increase from 1.1 per cent one year earlier. Many of the conditions that contributed to an increase in the vacancy rate during the October 2012 survey period will persist over the forecast period. Employment growth and low mortgage rates will encourage more renters to purchase a home while the number of new renters entering the market will ease slightly due to lower levels of net migration. Meanwhile on the supply side, the number of units in Winnipeg's rental market will continue to grow as a result of new construction. However, some of these gains will be offset by losses to the rental universe as a result of conversion to condominium or demolition. These factors will combine to result in an increase in the vacancy rate to 1.9 per cent in October 2013, followed by another increase to 2.1per cent in October 2014.

Figure 6

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Rents to increase

The majority of Winnipeg's rental apartment stock is subject to the Residential Tenancies Branch rent increase guideline. In 2013, the guideline limits landlords to a one per cent increase. Average rents, however, are expected to increase at a rate greater than the guideline since newly constructed and rehabilitated units added to the universe over the next year will command higher rents, which will effectively push up the overall average. In addition, landlords are able to apply for permission to increase rents above the guideline to cover cost increases. Under these conditions, the average two-bedroom rent will rise from $911 per month in October 2012 to $940 in 2013 and $970 in 2014.

ECONOMIC OUTLOOK

Job growth to remain positive

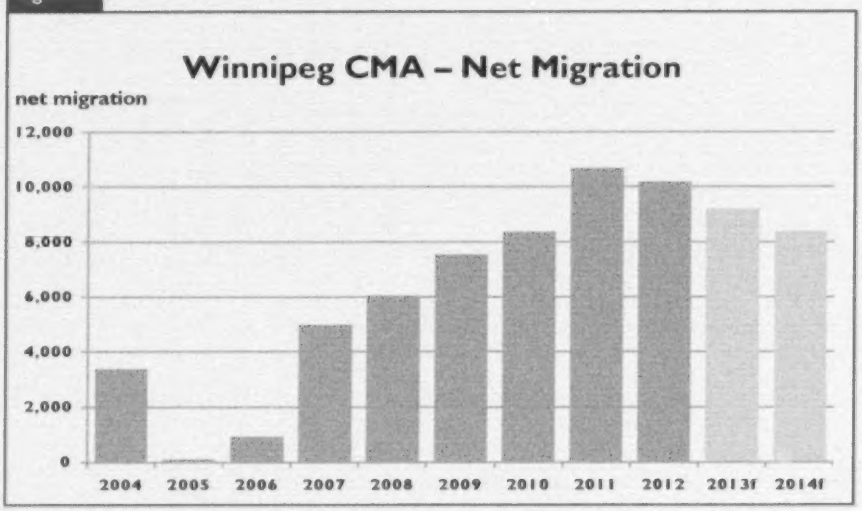
After posting an increase of 2.1 per cent in 2012, job creation in the Winnipeg CMA slowed in the first quarter of 2013, recording a year-over-year increase of one per cent or 4,000 jobs. Supporting housing demand, the gains in full-time employment of 4,100 positions more than offset the loss of 100 part-time jobs. Growth has been strongest among younger workers between 15 and 24 years of age at 3.5 per cent. The increase in employment within this age group will have a positive impact on demand for housing in both the rental market and among first-time buyer markets. Workers between the ages of 45 and 64 saw an increase in employment of 1.4 per cent and mostly in full-time

employment, boding well for the move-up and new home market. Meanwhile, employment growth for those workers between 25 and 44 was slightly negative which will impact both first-time and move-up buying decisions. Also impacting housing demand will be modest increases in average weekly earnings which rose only 0.6 per cent in the first quarter of 2013 and less than the rate of inflation. Overall, average employment in Winnipeg is expected to post a gain of 1.3 per cent in 2013 and further increase by 1.5 per cent in 2014.

The value of non-residential building construction in the Winnipeg CMA increased 17 per cent in 2012, helping fuel the expansion in employment. Gains in the commercial sector, which represented 61 per cent of all non-residential investment, had the most impact and saw an increase in value of 21 per cent over the previous year. Construction in the industrial sector increased 36 per cent year-over-year, while there was a modest increase of seven per cent within the institutional and government sectors. Looking forward, several recently announced projects in the non-residential sector are expected to break ground in 2013 keeping employment high in this sector.

Last year, Winnipeg saw a net migration gain of 10,176 persons, a decrease of five per cent compared to 2011. Despite the moderation, this was more than double the average net migration of the previous ten years. Most of the reduction in 2012 can be attributed to a four per cent decline in international migration along with a 32 per cent increase in inter-provincial losses. Nevertheless, the elevated level of net migration resulted in a 1.6 per cent increase in population for the Winnipeg CMA in 2012, down slightly from the 1.7 per cent gain in 2011. Looking forward, Winnipeg will continue to lose population to other provinces while a cap on the number of primary applicants arriving via the Provincial Nominee Program will prevent a rising number of international immigrants over the forecast period. This will result in a decrease in net migration of 9.6 per cent in 2013 to 9,200 persons and a further decrease to 8,400 in 2014.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

MORTGAGE RATE OUTLOOK

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the

expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Forecast Summary Winnipeg CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,921	2,002	2,129	2,200	3.3	2,250	2.3
Multiples	1,323	1,329	1,936	2,050	5.9	2,000	-2.4
Starts - Total	3,244	3,331	4,065	4,250	4.6	4,250	0.0
Average Price ($):							
Single-Detached	376,625	394,958	402,463	410,000	1.9	420,000	2.4
Median Price ($):							
Single-Detached	342,160	357,215	376,000	385,000	2.4	395,000	2.6
New Housing Price Index (% chg.)	4.8	4.8	4.2	4.0	-	3.8	-
Resale Market							
MLS® Sales	11,572	12,297	12,094	11,800	-2.4	12,000	1.7
MLS® New Listings	15,975	16,385	16,672	16,800	0.8	17,100	1.8
MLS® Average Price ($)	228,706	241,409	255,058	266,000	4.3	274,300	3.1
Rental Market							
October Vacancy Rate (%)	0.8	1.1	1.7	1.9	-	2.1	-
Two-bedroom Average Rent (October) ($)	837	875	911	940	-	970	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	408,500	408,800	417,400	422,800	-	429,100	-
Employment Growth (%)	1.8	0.1	2.1	1.3	-	1.5	-
Unemployment rate (%)	5.7	5.8	5.5	5.5	-	5.5	-
Net Migration [1]	8,357	10,691	10,176	9,200	-9.6	8,400	-8.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 26, 2013.

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